Technological change and economic growth: new questions, new answers

Few issues enjoy widespread consensus among economists. One of these is that sustained growth in productivity is essential to improve standards of living. According to this principle, the incredible technological advances that are currently taking place should be creating the perfect setting for impressive gains in productivity. Such a scenario would undoubtedly provide us with a more promising future.

In actual fact, productivity growth has declined significantly. And this phenomenon is not transitory or limited to just a few countries but has been observed continuously in the main economies, both advanced and emerging. One example is worth a thousand words. In the US, if labour productivity over the past four years had grown at the same rate as it did in the period 1996-2007, the purchasing power of US citizens would currently be 8% higher.

This phenomenon concerns and occupies the minds of economists and policymakers. However, the solutions that tend to be offered can be summed up as «we need more education and more investment». This formula may have been valid a few decades ago, especially in the industrial era, but its success is far from guaranteed today.

As noted in the Dossier articles, jobs are changing quickly and so are the skills required to make the most of new technologies. It is vital for the educational system to adapt to these changes – merely more education is not enough. The nature of the investment currently carried out by most companies also has little to do with the investment made decades ago. In the US, there is much more investment in intangible assets such as product design and software than in tangible assets such as buildings and machinery. Nevertheless, most programmes designed to promote investment focus on its classic concept.

Adapting to such changes is vital and surely inevitable. But if we wait too long or merely react, it will be difficult to make the most of new technologies. It is not enough to revamp the classic formulas. Paraphrasing Mario Benedetti, «when we thought we had all the answers, suddenly, all the questions changed».

The Fourth Industrial Revolution is already extensively transforming both the economic production structure and how technology is spread. The economies of the future will be the ones that provide a more suitable framework to give answers to these new trends.

The benchmarks normally used to define economic policy actions, such as company or sector size, need to take on other parameters that better reflect the essence of what new companies are doing. It is significant that an increasing number of firms are difficult to classify within a specific sector. Amazon and Google epitomise this phenomenon but the list is long and growing. Naturally the regulations that define the competitive framework for companies, and particularly labour market regulations, should also form an essential part of the new economic policy agenda.

Regarding the difussion of technology, a select group of highly productive firms now exists side by side with much more outmoded businesses that do not use the technological advances within their grasp. Acting on this second group offers huge potential, both due to its size and also its growth margin. Initiatives that help companies to learn, in real time, about the trends in their sector or about a benchmark group of firms, using all the information available, can act as an incentive for them to adopt best practices.

The future becomes more promising if we accept that the questions may have changed and we should be capable of providing new answers.

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